Winning off and on the pitch
How to host major events

People power
Building capabilities through talent

Fresh hope
How a social enterprise brings drinking water to East Africa

Projecting power
Australia’s former defense chief Sir Angus Houston on the future of armed forces
Welcome to the latest edition of Citizen Today, EY’s magazine for government and the public sector.

According to the great American inventor and engineer, Charles F. Kettering, “The world hates change, yet it is the only thing that has brought progress.” Change is one of the few constants in today’s world, and it is speeding up. Product design life cycles are shorter. New technologies are developed and adopted quicker. Mass communication means that ideas can be understood by more people in less time.

The pace of change offers great opportunity for progress. The challenge for government is to harness advances in technology and communications to produce better services for citizens. But to do so, they must overcome the interests that resist change. And as Kettering suggests, change is often unpopular.

In this issue of Citizen Today, we look at some examples of how governments can change the way they operate. We sketch out some big challenges that need to be met and explore how governments can change the way they operate in order to meet these challenges.

Hosting a major event, such as the Olympic Games or FIFA World Cup, can transform a city or country. On page 6, we examine the steps that governments and organizers can take to make the most of the opportunity.

The way we work has been remodeled over recent decades. But the way we save for retirement has remained stuck in the past. On page 10, we show how governments can encourage retirement saving and reduce a vast shortfall in funding for later life.

Sir Angus Houston has served as Australia’s most senior military official. In an exclusive interview with Citizen Today (page 14), Sir Angus explores how operational and technological developments are affecting armed forces around the world, and how forces and defense ministries can contribute to a “whole of government” approach to defense and security issues.

Many government departments are expected to build up their capabilities, at a time when budgets are tight. Hiring and retaining the right people is key to developing capabilities, and on page 19 we discuss the talent strategies that public sector leaders can put in place.

When the success of a policy depends on outcomes, rather than outputs, how should government change the way it commissions service providers? On page 22, we investigate Payment by Results arrangements, and set out what commissioners need to know about them.
The global economy must create 280 million jobs over the next four years if it is to provide enough opportunities for all new entrants to the labor market. This is a huge challenge that can only be met if more entrepreneurs set up and grow their own businesses. On page 27, we explore the steps that governments can take to foster a stronger entrepreneurial culture.

Citizen Today itself is also changing. It now incorporates material from EY’s other public sector magazine, Dynamics. We have decided to merge Dynamics — which focused on international development issues — with Citizen Today because this change enables us to bring inspirational stories from the developing world to a wider global audience.

In our first international development feature, on page 30, we interview an American social entrepreneur who is helping local businesspeople to provide safe and affordable drinking water in East Africa. The story shows how fusing profit and purpose can provide a compelling alternative to traditional public or private sector attempts to deal with a seemingly intractable problem.

If the world does hate change, as Kettering says, then resistance to it can be strong. Governments that harness change effectively, and by doing so improve the lives of their citizens, may not be loved. But they will bring progress. And that is likely to be rewarded.
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Please visit Citizen Today’s website at ey.com/citizentoday
Major sporting events showcase the best of human physical endeavor. But they also give the host country or city a golden opportunity to create lasting economic, social and environmental value. Bill Banks finds out what it takes to make this happen.

When the final whistle sounded at Twickenham on Saturday, 31 October, it was the moment of triumph for New Zealand, winners of Rugby World Cup 2015. Victory was the product of months, even years, of planning by the team management. And for the players, it was the outcome of a lifetime dedicated to honing their talent. But the Rugby World Cup had another winner: the host nations, England and Wales.

An EY report shows that the tournament was set to bring £2.2 billion to the British economy. It supported 41,000 jobs, attracted nearly half a million visitors and brought £85 million of infrastructure investment. And with matches taking place across 11 cities, value was spread widely across the country.

Like success on the field, the benefits of major events require careful planning and preparation. All hosts, and those thinking of bidding to host events, should be aware of the risks of underestimated costs, fixed deadlines and intense media scrutiny.

On the downside, a poorly prepared host can find itself paying back bills over decades and damaging its reputation around the world. After all, the stakes are high off the pitch as well as on it. The cost of the 2014 FIFA World Cup in Brazil was estimated at US$11.3 billion, while the Sochi Winter Olympics held in the same year came with a reported price tag of US$50 billion.

But the upside is a chance to showcase your nation or city in front of the world’s media, develop infrastructure, build confidence in your
New Zealand players celebrate their win over Australia in the 2015 Rugby World Cup Final. England’s team may not have performed well on the field, but the country’s economy benefited from hosting the tournament.

**Eyes on the prize**

Economy, attract investors and tourists, help businesses to grow responsibly and sustainably, boost inclusiveness and human rights, develop talent and encourage diversity. In short, a well-planned and executed event can leave a lasting legacy of economic, social and environmental value.

**Steps to success**

How can the host give themselves the best chance of realizing these benefits? A recent report from EY, *Bang for the buck*, identified some important steps that governments and organizers can take.

Governments could benefit from conducting a national competitiveness assessment at the start of the event proposal process. This should be done as part of the city or country’s tourism strategy, and not just for the event itself. The study would identify sectors in the economy where the country or city has a competitive advantage. These sectors are distinguished by their ability to meet the direct needs of the event, and their likelihood of growing after the event.

The next step is to identify sectors that can be boosted by the event. Typically, these areas would have inherent advantages, reflecting the country’s location, resource base, planning needs or existing regulatory environment. For example, with the 2012 London Olympics, the UK drove expansion in its technology, media and hospitality sectors, and regenerated a previously underdeveloped part of the city. South Korea, meanwhile, used the 2002 FIFA World Cup to increase the competitiveness of its IT and tourism sectors.

Next, determine how event preparations can drive growth in the selected areas. This involves considering the institutions, policies and other factors, such as innovation, that drive a country’s productivity. Government can then map these catalysts to the chosen sectors and determine what kind of support is required.

The exact combination of reforms will depend on the priority sectors, with the maturity of the sector and level of competition key factors for consideration. A major event is a good opportunity for government to formalize public-private partnership (PPP) structures, reform procurement regulation, change visa restrictions or establish special economic zones. Similarly, governments could use the event to drive a change to tax or foreign ownership rules, if the target sectors benefit.

For government, it is crucial to integrate event investment plans into a national economic development
strategy. An event can galvanize investment in transportation infrastructure, ICT, health care facilities and public housing. Investment in such productive capital stock has a greater chance of providing long-term value — and provides a greater justification for spending taxpayers’ money.

Policymakers could develop a financing scorecard to assess prospective investments, which includes total-cost-of-ownership estimates, public debt implications and benchmark returns for alternative capital projects to capture opportunity cost. This would also include metrics on private sector engagement, which is crucial to maximizing efficiencies, and the commercial viability of assets, including through PPPs.

Organizational challenge

So, government must take some important steps. But the detailed planning and management of preparations will be the responsibility of an organizing committee, which government will help to set up and oversee. The committee itself faces a series of challenges.

A major event is unique in its scope and complexity. Many people working on it will not have done something approaching this scale before. The organization may start with a few people who have the idea of bidding, and then grow to the size of a FORTUNE 500 company, before disbanding after the event.

Building an effective and flexible organization is a complicated, but crucial, task. Organizing committees need to identify and recruit people who have experience of delivering large-scale events. As the event draws nearer, and the task evolves from strategic planning to operations and then event delivery, the governance structure, culture, work procedures and support systems must be reconfigured regularly.

“Major events can galvanize the economy of a nation or a great city, drive social and environmental progress and help show the way for businesses to make better decisions”

The committee will work with many different stakeholders, including the rights-holder — such as the International Olympic Committee in the case of the Olympic Games — sports governing bodies, local and national governments, media, building contractors and the tourist industry. The committee will need to reconcile any competing priorities and co-ordinate interdependent plans.

Achieving value for money from procurement is crucial. The event is fixed in the calendar. A World Cup or Olympic Games cannot be delayed. These fixed deadlines heighten the procurement risk. The commercial and political risk of missing deadlines is significant, and hardly bares contemplation. Therefore, it is imperative when selecting procurement partners and developing contracts that there are robust and enforceable contractual remedies in place to ensure on-time delivery of key works. EY has developed a robust program and risk management methodology to assist our clients deliver large and complex major projects on time and to cost. This is a key role that EY performed for the London Olympic Development Authority, for the 2012 Games, which were delivered on time and to cost.

Total impact

The full value of hosting a major sporting event cannot be seen by looking at economic indicators alone. The multiplier effect of increased tourism, for example, is a welcome benefit. But it doesn’t tell the whole story. Major events can inspire and lead change toward a more sustainable world.

The task of organizing and delivering a major event is a rare opportunity to bring a wide range of groups – governments, corporate sponsors, suppliers, participants, fans and the local community – together to work and act sustainably. This means integrating environmental, social and governance goals right from the start of the process.

Environmental goals cover protecting and restoring natural resources and ecosystems, not just eliminating or reducing the event’s environmental impact. Social goals include respecting human rights, ensuring inclusion, providing access to all and contributing to the well-being of stakeholders. And governance targets include transparent presentation of economic, social and environmental impacts.

It is crucial for sustainability to be integrated right from the start of the bid process. For example, a city or country deciding whether to bid for a major event may decide not to proceed on the basis that the potential economic value of being a host is not worth the investment of time and resources. However, if they add social and environmental impacts to the ledger, a truer picture of the value created will emerge. And a compelling case for going ahead with the bid – and winning – may develop.

Organizers should understand how the event can contribute to the development of the host city, and how the investment in social and environmental themes reflects the real needs of the city and its people. Hosting an event might involve building new sports stadia and transport links. But no government wants a new arena, and the new rail links serving it, to lay unused after the
event has finished. It is a mistake to build a venue for the event and then figure out later what to do with it when the event is over. Instead, think first about what a city needs. Then design a facility that services this long-term need, and work out how to adapt it for its limited use during the event itself.

The focus on sustainability needs to be maintained throughout the preparations for the event. For example, organizers should include sustainability considerations in the procurement of goods and services; encourage other stakeholders to integrate sustainability within their own organizations and operations; and work with experts and authorities to ensure that the event adheres to the best sustainability practices.

Finally, when it comes to measuring the event’s impact and legacy, a full picture will only emerge if the sustainability effects are fully assessed. This rounded measure of impact is an example that can be applied beyond major events. It can set a new benchmark for truer accounting; for a more accurate assessment of value. And it could help companies make smarter business decisions. After all, if a city decides to go ahead with a bid to host a major event because it understands the full value that the venture could bring, then a business that has sight of social and economic value could decide to go ahead with an investment program that looked unviable when based solely on economic numbers.

Supporting role

EY has a proud history of working with major events all over the world, including Commonwealth Games, Pan American Games, the FIFA World Cup, the Rugby World Cup, World Expo and Olympic and Paralympic Games. In fact, EY’s Olympic relationship started with the Los Angeles Games in 1984, when it was the external auditor. This association continues, with EY Brazil acting as exclusive provider of professional services in the consulting category for the Rio 2016 Olympic and Paralympic Games. And EY is supporting the Tokyo organizing committee (TOCOG) in a number of areas.

One area is finance and budgeting. This includes drawing up and managing a budget, which included clarifying the division of roles and responsibilities between TOCOG and the Tokyo Metropolitan Government; developing cost reduction options; designing enterprise resource planning systems; accounting treatment of value-in-kind goods and services; and licensing program management.

The second area is tax support – assessing the tax implications arising from hosting the Games; supporting the transition of TOCOG to a public interest incorporated foundation; and developing tax training workshops to help manage tax implications for broadcasters and other international providers.

Another area is internal audit and compliance. This involves establishing TOCOG’s internal audit capability; developing compliance guidelines; and reviewing the implementation and operation of the guidelines.

EY is also helping to design procurement processes, policies and procedures, integrating the Metropolitan Government’s existing processes with requirements specific to the Games.

The final area is commercial sponsorship. This includes assessing the local market for potential domestic sponsors; determining criteria to help select sponsors; and working out contract terms and periods.

A team effort

At its highest level, sport has the ability to bring nations together, to celebrate the limits of individual and collective human physical endeavor and to inspire young people to lead active, healthy lives. Major events can galvanize the economy of a nation or a great city, drive social and environmental progress and help show the way for businesses to make better decisions. But the chance to accomplish all of these things may only come once in a generation.

Policymakers and organizers should seize their chance and take this precious opportunity to bring economic, social and environmental transformation. So that, when the final whistle sounds, it is not only the players who can say they gave it their all. 

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Policymakers and organizers should seize their chance and take this precious opportunity to bring economic, social and environmental transformation. So that, when the final whistle sounds, it is not only the players who can say they gave it their all.
Employment patterns have been transformed in recent decades, but the way we provide for retirement is still stuck in the past. And if the pensions industry fails to modernize, it could sow the seeds of the next global financial crisis, says Josef Pilger.
If you were starting your first job 40 years ago, you could expect to work in the same industry, in the same country, perhaps even for the same employer, for the whole of your working life. You could then look forward to a short, but well-funded period of retirement.

Since then, the world of work has been transformed. Today, more jobs are less secure, vulnerable to the ebbs and flows of a globalized economy. People are more mobile, willing to move across borders and industries in search of opportunity. And the rise in self-employment means that more people are becoming their own boss.

However, the fundamental change in mobility and the way we employ people has not been matched by the pensions industry. In many countries in the developed world, the way in which we fund and save for retirement is still based on an outmoded way of working. Indeed, inertia in the pensions industry stretches back way beyond the 1970s. Essentially, not much has changed since the Romans invented pensions 2,000 years ago.

An inadequately reformed pensions system, combined with a demographic transformation that is seeing many more people live longer in retirement, has produced a crisis in the funding of later life. A recent report from EY, called The $500 trillion prize, sets out the scale of the problem and how it might be solved. US$500 trillion is the figure that the report identifies as the total global pool of retirement assets required over the next decades. This is based on a very conservative assumption of five billion people requiring an average of US$100,000 in their pension account.

Perhaps US$100,000 will not be enough, and the true total will far exceed US$500 trillion. But that figure sets a target that is reasonable. However, is it reachable? Some estimates put the total current global pension and retirement assets at around US$50 trillion. This implies a whopping deficit of US$450 trillion. Of course, these figures can only be a rough estimate, and very few people in the industry will be able to agree on a settled figure. But one thing is certain: all stakeholders must think big if they are to come up with a solution.

Demographic transformation is an unstoppable train. And without concerted action, it will take more people in developed and developing countries directly to old age poverty. If US$500 trillion is the target, then tinkering around the edges by nudging up the retirement age will not suffice.

Pain now or later

In practice, closing the pension gap means encouraging workers to divert larger parts of their wages into retirement savings or raising taxes so that governments can contribute more to pension funds. For governments wanting to be re-elected, this is a tough sell. The time it takes for the benefit of policy action to come to fruition is far longer than any electoral cycle.

But government is the underwriter of last resort. When citizens do not save enough to support themselves in retirement, it falls to government to make sure that they have clothing, food and shelter. There appear good reasons for governments to delay tough decisions. But if they choose not to tackle the pension deficit straight on, then they merely...
defer pain in the form of huge social security costs and foregone economic prosperity in the future.

So there's a clear choice. Take concerted policy action to encourage, and compel, saving for retirement. This reduces the chances of people moving into poverty in old age and minimizes the government's underwriting risk. Or continue with the status quo, allowing the gap between pension savings and the money required to open wider. This will saddle future governments with an ever-growing social security bill, condemn large numbers of older people to poverty and dependence on the state, and forego the economic growth that could have been produced by retirees with their own purchasing power. A further challenge is that many governments are unprepared for proposed accounting changes that will put long-term liabilities under increased scrutiny.

At an operational level, digital platforms can help individuals to engage with pensions and take control of their affairs. Technology-driven advice is used widely in wealth management. We can adopt this more in the pension space, too, and enable people to inform themselves, look up what's best for them and understand that they need to do more for themselves. This gives power to the citizen. Citizens are used to having control over other parts of their life, so why should pensions be any different?

“Tinkering around the edges by nudging up the retirement age will not suffice”

People power

If we are to stop kicking the can down the road and face up to the pension challenges, what can be done? For many people, their pension planning is something that they are told to do. Governments, and other stakeholders, take a paternalistic approach to a complex issue, and individuals aren't involved enough in decision-making. Currently, complex information is not presented in an engaging way. As such, many people find the subject difficult to understand and switch off, allowing others to take control. Relying on default solutions, auto-enrollment or opt-out solutions are only one step to empowerment. If people aren't listening, it is not enough to communicate more of the same.

In today’s digital world, we are way beyond the stage of thinking that the topic is very boring and complicated, therefore government will decide what's best. We need to change the way we communicate about pensions, simplify our messages, engage people and get them invested in decisions that will, after all, directly affect the quality of their lives in the future. Governments can make progress by taking a step back, looking at pensions through the eyes of the citizen, and engaging with them in a way that helps individuals to recognize the need to save for retirement and to take more control of their own arrangements.

Digital platforms can help on many different levels. From a government perspective, managing public confidence is a top priority. You can help to manage public confidence by monitoring what people are saying, through web-based feedback and on social media. These tools can help government to listen to citizens and hear their concerns. But crucially, government should act on these views, adjusting language and communications in a way that helps to deepen understanding and generate confidence.

Driving change

In many countries, the pension industry is now bigger than banking. But effective governance structures that are required to run an industry of this size are often lacking. Governance is fragmented, responsibilities are unclear and the process of making the reforms necessary to produce an effective pensions industry takes far too long.

And who is responsible for driving reform? Who is kept awake at night worrying about their nation’s share of the US$450 trillion deficit, and thinking creatively about solutions that can help close it? And what effect will this deficit have on the wider economy? Could our inertia be sowing the seeds of the next great financial crisis? Digital advances, market disruption, financial technology and crowdfunding are all reshaping the financial landscape. Who is responsible for analyzing their effects on pensions and harnessing the benefits they could bring?

At the industry and government levels, we need to decide who takes responsibility, how consultations are driven, what reforms should be made and how the reform process is managed.
Mind the gap
The pensions industry faces other important questions, such as how women can save adequately for retirement when they tend to live longer and spend less time in the workforce, and how countries in the developing world can avoid the mistakes that have left the developed world in a pensions crisis.

But until the size of the worldwide savings gap is recognized, and the urgent need for action is understood, these questions will go unanswered. The measures described here won’t by themselves summon up an extra US$450 trillion of retirement saving. But they help to provide the foundations for effective ways of engaging citizens and driving reform.

Change in action
Around the world, EY is helping governments to design, implement and transform pension and social security systems and operations. One government asked EY to come up with ideas to tackle high fees and low returns. The government wanted to understand what was causing costs to rise, and how a better operating model could be developed that reduced fees for all stakeholders, including citizens. Experience of the local and global market, combined with cost analysis, research on other countries’ pensions systems and performance improvement techniques, enabled EY to identify and recommend measures to improve the performance of the industry. EY then worked with the government and pension providers to drive the necessary change.

A government pension back-office shared-service organization asked EY to help it design and implement a business and technology transformation program. Costs had risen and satisfaction levels among employers and members had fallen. Technology and business processes were seen as outdated and too complicated. EY analyzed the pension value chain, assessed capabilities and levels of integration. Next, EY produced a comprehensive strategy for the future, encompassing the operating model, processes, technology requirements and a detailed implementation plan. Experience of large scale business and IT transformation and change management enabled EY to help the organization develop a better service for citizens.

Josef Pilger is EY Global Pension & Retirement Leader
For more information on The $500 trillion prize pensions report, visit ey.com/government
Leading your country’s defense force brings responsibility, hard work and a high public profile. When you relinquish that role, a quieter life beckons. But for Sir Angus Houston, stepping away entirely from the front line was not an option.

Having served as Chief of Australia’s Air Force and Chief of the Defence Force, Sir Angus retired from the military in 2011, after 41 years’ service. Since then, he has led Australia’s response to the MH370 and MH17 airline disasters, and headed an expert panel on the controversial issue of asylum seekers attempting to reach Australia.

Now, Sir Angus has been appointed as a Senior Advisor to EY’s Global Government & Public Sector practice. As we seek to help armed forces thrive in an ever-changing defense and security environment, his leadership skills and experience will prove invaluable. I met Sir Angus in Canberra recently to get his perspective on some of the issues that are bringing uncertainty and turbulence to the global defense and security scene, how they may affect the future of armed forces in Australia and other Western nations, and what challenges defense chiefs in these countries face.

Sir Angus cites a number of factors that are complicating the strategic defense and security setting. Continuing conflict in the Middle East has contributed to a refugee crisis. Actions by some influential states have brought instability. Balances of power are shifting in the Indo-Pacific region. “And of course, through all of this, we see terrorism continue to endure in a lot of the Western nations. Not in a way that is wide reaching – rather what we are seeing is isolated, lone-wolf attacks.”

Cost and capability

There is clearly much to keep defense ministries and armed forces busy. But they are not immune to the budgetary pressures that are applied to government departments in many parts of the world. Sir Angus thinks that increasingly tight budgets will bring a great challenge. “Sustaining existing levels of capability into the future will be very difficult.” Defense ministries will be competing with other priority programs in areas such as education, health and infrastructure. And they will be competing with the police and other security agencies that are engaged in counterterrorism activity.

Sir Angus believes the impact of budgetary pressure is felt in two stages. First, a cost containment program means a recruitment freeze, so workforce numbers are reduced when people retire and are not replaced. Logistics cuts follow, which eventually affect the availability of equipment. For example, aircraft that are in servicing start to be seen as a source of spare parts for another aircraft that has an unscheduled arising in the operational side of the organization. “The term for this is cannibalization. You will get many more aircraft in servicing, they stay in servicing longer and you start to have circumstances where you will find it difficult to meet your preparedness requirements.”

The second stage is when there is a marked reduction in the defense budget. “Hard choices are made. Some capabilities are retired earlier than planned and they are phased out without replacement.” Procurements are delayed or canceled and redundancy programs established. “You see cuts to operational activities, fewer exercises, cuts in training and a fair bit of turbulence...”

Old certainties about defense and security capabilities are being challenged. And the threats are not just emerging on the battlefield. Lucille Halloran talks to Australia’s former Chief of Defence Force Sir Angus Houston about how armed forces throughout the Western world could develop in the future.
within the organization,” he says. In the effort to create a smaller, leaner operation, forces will probably shed capability, see an overall reduction in preparedness and flexibility, and be less adaptive. “These are some of the things we’ve seen around the Western world over the last 15–20 years.”

As forces around the world cope with such pressures, they will have to focus on productivity, deal with increased scrutiny of expenditure and rebalance the relationships within defense budgets between the three major areas of cost – operations, personnel and capital. In Australia at the turn of the century, says Sir Angus, about a third of the budget was spent on operating costs, a third on personnel and a third on capital. Since then, there has been a slight increase in operating costs and a massive increase in the proportion that is required to fund personnel. As such, spending on capital investment has been hit.

**Putting people first**

“The most expensive component of defense capability is people,” says Sir Angus. The demographic challenge is not helping. “The last of the baby boomer generation are approaching the end of their working lives, and the generations that follow are not there in the same numbers. Defense agencies and armed forces will have to compete against the lure of exciting careers that are available in information technology, finance and other areas of business. Just about everything these days in the defense business has a degree of complexity and a need for technical skills. So recruiting the right people will be challenging.”

Australia sees lots of young people complete their training in the defense force and then leave after a few years. In a global economy, some of the best recruits leave to join big companies in the United States’ information technology sector – which pay top salaries and attract the brightest and the best. So, how do you confront this?

“You need to have a good brand and a good strategy. And you need to engage with the people who you are targeting to join your defense force at every opportunity.” Sir Angus points to the Australian Defence Force cadet program as an example of good recruitment practice over a number of years. Around half of the officers in the Australian air force went through cadets as school boys or girls. The exposure that cadets get is a key part of its success. “They get a chance to spend a week on a

“In the future, financial management and accounting skills need to be part of professional military education and development programs”
base. There'll be an opportunity to fly, to have a look at operational aircraft, to meet people who fly those aircraft and to learn to fly a glider.” Engaging with schools is also important. Service personnel could go back to their former schools and tell current pupils about the great experiences they have in the armed forces.

Attracting recruits is a challenge that can be met with creativity and good communications. But what about retaining the people you have? Culture is key. “In my terms as Chief of Air Force and Chief of Defence Force, I was very keen to create a culture where you put people first,” says Sir Angus. “I believe very strongly in a values-based organization that looks at people as the most valuable part.” Leaders should set an example and work tirelessly for the welfare of the people in the organization. “Empowering and challenging them to do what they want to do creates the right culture, brings high levels of morale and gives you great results.”

Sir Angus says individuals should work closely with career managers to map their personal goals and align them to those of the organization. “It’s very expensive to train a fighter pilot or a ship’s captain. So, in a highly competitive market you need to protect your investment. You do that by coming up with suitable packages that include not just remuneration but professional development, educational opportunities, exchange postings and so on.”

But the leaders of modern armed forces need to have a broader set of skills than flying a plane or navigating a ship. For example, as spending comes under closer scrutiny, accounting and financial management skills will become more important. “I think they are core skills for all senior military and civilian officers,” says Sir Angus. “They need to be part of the suite of skills that are looked at when people are promoted into the top jobs. And I think that in the future, financial management and accounting skills need to be part of professional military education and development programs. They need to be instilled right from the outset, not something that you do when you get half way through your career.”

Progressive procurement

People are not the only priority. Pressure on resources and technological advances are also placing new demands on the way equipment is procured and supply chains managed. Sir Angus recognizes that the defense industry is in the process of a long-term rationalization. “Back in the 1960s, there was a choice of a large number of fighter aircraft. In the Western world now, the only fifth-generation aircraft that's available is the F-35 joint strike fighter.”

Development programs are long, costs are high and for a company to embark on a long-term product development program they are going to need some certainties about having customers for their product. “Unless we're very careful,” says Sir Angus, “we won't have competition.” And a lack of competition could bring a loss of innovation, which is the last thing armed forces need.

He wants to see procurement systems that are more agile and adaptive. “And wherever possible, when you have to purchase something, I always prefer trying to find an off-the-shelf solution — a platform that has demonstrated reliability in service. If you go down that route, you will have an established supply chain. You should have no issues with defining your capability requirements, or establishing and agreeing your
Lucille Halloran is EY’s Oceania Government and Public Sector Leader

preparation requirements in terms of the way the supply chain needs to operate in steady state, and when something happens that requires the capability to be used in anger somewhere around the world.”

Off-the-shelf products are more likely to arrive on time and on budget. But they are not always an option. And the risk of going down the alternative development route can be worth the reward. Australia required an airborne early warning and control aircraft and went for the Wedgetail program. It arrived late and there were some cost increases. “But the system is now operational and it is the world’s best capability,” says Sir Angus. “It is being demonstrated right now in the Middle East, in the deployment of the Australian forces against ISIL.”

Sir Angus’ upbeat mood continues when the conversation turns to technology. “I think it’s absolutely imperative that armed forces embrace innovation and the latest technology,” he says. This means defense forces exploiting their internal science and technology organization. The Australian Defence Force is lucky, he says, to have a very powerful and effective science and technology division — comprising several thousand people. In recent times, under the leadership of the current Chief Defence Scientist, the division has started to engage with universities and the centers of excellence associated with them. “It’s all about partnerships and collaboration,” says Sir Angus. He cites unmanned systems, defensive cyber capability and space as areas ripe for the application of technological development in the future.

Beyond joint warfare

So, how does Sir Angus see defense capabilities evolving in the future? “We’ve had a very heavy emphasis on joint warfare in Australia for a generation, and people are now talking about going beyond joint warfare. This means integrating your defense force with other elements of national power, so you end up with a ‘whole of government’ approach.”

What does a whole of government approach look like? “Operations are all about achieving the objectives that the government sets,” says Sir Angus. In a complex operation, those objectives usually require the full cooperation of many other agencies within government, such as departments of state and the intelligence agencies. This means seamless cooperation between military personnel and civilians. “They need to be able to work together in constructive and trusting relationships to deliver what is required by the government. Among the 58 operations that were conducted in my time, not one was a classical single service operation.”

Technological change, geopolitical developments, the focus on cost and the shifting nature of threats are all reshaping the idea of what we need our armed forces to do. Change is here – debate about its form is fierce and potential solutions are often controversial. But from our discussion, it is clear that Sir Angus is not interested in fighting the last war. His sights are firmly set on the future. 69
Government departments and agencies around the world face a number of challenges. Some are trying to produce better services with less money. Others have had their budgets boosted, and are now having to demonstrate that the extra funding is producing a step-change in service quality. But one thing that most share is the task of building their capabilities.

The demands of modern public administration mean that government departments can no longer rely on their traditional strengths of policy and analysis. For example, as departments provide fewer services themselves and instead commission services from outside providers, commercial capabilities and an understanding of the marketplace become more important. Change management, project management, financial analysis and digital skills are also areas in which capability needs to be built. And government bodies will only truly deliver the best value for taxpayers if they can work effectively alongside external service providers.

The drive to build capabilities depends on people. It will only succeed if government bodies can equip their existing workforce with the skills required and attract new people who already have them or can develop them. So how can government and administrators respond?

In the US, a session recently conducted by the Association of Government Accountants (AGA) and facilitated by EY explored how financial leaders and their human capital counterparts can develop a financial management workforce that meets the challenges of today and tomorrow. Government financial management organizations are at the forefront of the capabilities drive in the US. This drive is powered by advances in technology, changes in workforce demographics, a growing movement toward shared services, new legislation and emerging business priorities.

In short, CFOs in US government finance organizations are expected to act as strategic business partners. As such, they must think differently about their workforce, and work out how to build and sustain it. They must do this against a backdrop of high career expectations among the Millennial generation of workers — and increasing competition for their services — and a retirement wave among their more seasoned workforce.

So, in an era of shrinking budgets, how can financial leaders find creative and compelling ways to engage the workforce, develop its skills and build leaders for the future? The session produced a series of conclusions for US financial leaders. But these findings can also apply in other areas of public administration in other parts of the world.
Workforce planning

Leaders should understand what they need their workforce to do now and in the future. The first task is to analyze workload using workforce modeling tools. It is imperative to have sound data on workload, employee and contractor costs, and productivity levels. Then assess the skills of the workforce to help identify gaps, training requirements and future needs.

Leaders can use advances in operations and technologies, such as shared services, to build the enterprise-focused capabilities of the workforce. For example, by moving the more transactional work to providers outside of the government body, opportunities arise to retrain and recruit people with the skills required to broaden capabilities.

In the US, there is considerable mobility across the financial management workforce in the federal, state, local and commercial sectors. Many people come in and out of industry and return to government. So, leaders can work to make the most of these networks, and encourage the cross-pollination of ideas, leading practices and new ways of working.

They can also hire beyond the job itself, recruiting people with skillsets that are useful across the organization, not just in a particular role. This allows the government body to build a pipeline of talent. Succession planning is a key component of workforce planning. It helps to develop future leaders, but also prepares for the task of filling vacancies in the lower ranks. It is smart to focus early on filling the gaps behind those workers who are eligible to retire within the next few years.

Getting recruitment right

It is important for leaders of federal or national government bodies to recognize that they have a large recruiting pool that spans different layers of government as well as industry. This pool of potential recruits contains people with varying levels of experience and skillsets who can help to build capabilities quickly. Identifying talent is one thing. Securing it, in the face of stiff competition from the private sector, is another.

Leaders can start by building the brand. Government is an attractive place to work. Many positions will suit millennials, who tend to be focused on making a real difference in their career. It is important to have a targeted recruiting strategy for millennials. This could include, for example, internships that later translate into full-time opportunities. Almost all colleges have on-site recruiting programs where private sector firms are heavily represented. Government agencies should consider building relationships with colleges and represent themselves in these on-campus recruiting events. Professional associations like the AGA have several members from academia who can “carry the message” back to their campuses. Building relationships with professors and teachers and arming them with the information about the benefits of government careers is a cost-effective way to target potential recruits.

People who are in the middle stages of their career are also a key talent pool for government. Some people leaving government in mid-career will need experienced replacements. And this is an opportunity to bring in workers who have valuable experience of the private and voluntary sectors. Many individuals who have several years of experience behind them, or even an entire career, are still eager for new professional challenges that offer the chance to explore new horizons, broaden their skills and make a difference. So public sector leaders must show them that a career with a government body can help them achieve these ambitions.

Develop and retain

Once you have hired good people with the necessary skills and aptitude, then you have to work hard to keep them. There are a number of measures to take. First, find creative ways to reward and reinforce high performance. Of course, this can mean pay related to performance, but also non-monetary recognition.

Second, offer new and interesting assignments for employees. As government organizations increase their capabilities, opportunities for employees to diversify their skill sets and careers are becoming more plentiful. Training and development programs can help equip people for new roles.

Third, enhance the leadership and mentoring capabilities of frontline managers and supervisors. Leaders should seek to enhance the capabilities of these managers, seeing them as mentors and sponsors, as well as technical supervisors.

In the rush to appeal to the millennials cohort, it is important to invest in and retain the established workforce. In the US, nearly a third of the estimated 2 million federal employees have between 10 and 24 years’ federal experience – and almost one in five hold supervisory positions.

Leaders can draw on the experience of these tenured workers to help solve critical and complex challenges. Task forces and project teams – comprised of ambitious
Go-getters – may find the solutions they are looking for if there is space in the ranks for an old hand.

Long service in the public realm is, in most cases, underpinned by a passion for public service. So why not put this passion to work by engaging tenured workers as mentors to less experienced and incoming staff? This way, new recruits help to understand the public service ethos, and experienced workers get the satisfaction of performing a pivotal role in developing the next generation.

Some tenured workers will like the security of a familiar and predictable environment. But this doesn’t mean that they cannot experience different settings. For individuals, secondments and assignments to other government agencies or partners can provide variety and the opportunity to learn, without having to change career. And for the government agency, your tenured workers will build capabilities without feeling unsettled.

“The drive to build capabilities depends on people”

Another priority is to address the challenge of the “reluctant manager.” Moving into the ranks of management is a natural career progression, leading to higher grade levels and better pay. For many in the tenured workforce, management may not be an aspiration or a core competency. However, to advance in their careers by virtue of their experience and knowledge, these seasoned employees are often placed in management positions for which they are not prepared.

In the absence of appropriate training and preparation to lead, the likely outcome is that the individuals supervised or managed by the tenured employee may not be adequately coached and developed. Similarly, the tenured employee’s development is also stifled and their engagement can be diminished as they are unable to advance in the direction that is suited to their capabilities and preferences. This mismatch not only subjects the organization to the risk of high staff turnover, it also undermines the development of the workforce and succession planning efforts. Therefore, leaders should find ways to reinforce and reward technical acumen through channels other than the supervisory career path.

Effective partnerships

To build capabilities, the public sector must also harness the talents of people in organizations to which work is outsourced. In some areas, such as cybersecurity, a workforce comprised of government employees and contractors is required to provide agility and give organizations the flexibility to meet needs as they emerge. Government bodies also use external agencies to help them manage fluctuating workloads and free up resources for strategic tasks or particular missions.

In these circumstances, it is a good idea to re-engage workers who have left government to work as consultants. Bringing those people back on a consulting basis gives access to valuable skills, experiences, knowledge and contacts – and provides important flexibility.

Working with outside bodies provides another valuable opportunity for government leaders to develop networks and encourage the exchange of ideas and working practices.

Facing the future

The role of government is changing fast. Departments need to develop capabilities. The world of work is changing fast. People need purposeful careers that offer more than just the monthly pay check. By implementing the right recruitment and development strategies, appealing to the tenured workforce as well as new recruits, and working with partner agencies to develop talent and teams, government organizations can respond to the needs of policymakers, taxpayers and the people who they employ.

The Millennial generation tend to be focused on making a real difference in their career. Government organizations need a targeted recruiting strategy on campuses

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Payment by Results is a policy delivery method used more and more by governments around the world. But in what circumstances should commissioners in government departments use it and what do they need to know about those who provide it? Matthew Watt reports

Reducing reoffending rates among those convicted of a crime is a policy outcome that could benefit from a Payment by Results approach.
Some social problems, such as long-term unemployment and high reoffending rates among those convicted of a crime, can seem intractable. Traditional policy actions may not produce the results that policymakers desire. And with budgets under pressure, simply spending more money is not likely to be an option.

In such circumstances, Payment by Results (PbR) offers another way forward. What is PbR, when might it be an appropriate route to better policy outcomes, and what do commissioners in government departments need to know about the organizations that provide PbR services?

Put very simply, PbR means that the amount of money paid to organizations who are commissioned to provide a government service is contingent on the results they achieve. If the provider exceeds its targets, it receives more money; if it falls short, it is paid less or may not be paid at all.

Some PbR contracts establish a mix of payments. For example, a provider may be paid a fee for providing a service, or output, such as getting an individual to attend a drug rehabilitation program. And then extra payment will depend on the outcome, which is determined by how many of these individuals did not reoffend within a given time period.

This distinction between outputs and outcomes is key to understanding when and where PbR might be the right route for commissioners to take.

Applicable?
When determining whether PbR is the right strategy, commissioners should ask themselves whether it is applicable, acceptable and achievable.

PbR tends to be applicable when the problem that the policy aims to solve forces the commissioner to focus on outcomes. PbR initiatives have emerged as a response to complex social problems, such as recidivism and long-term unemployment, where desired outcomes – in these cases reduced reoffending and unemployment – have proved hard to achieve and stubbornly resistant to traditional policy interventions.

Not all public service problems require a PbR solution. PbR will be most applicable where the nature of the problem demands that providers are incentivized to search for ways to achieve better outcomes. PbR will be least applicable when commissioners simply require better outputs, at defined service standards, at lower cost. Compared with outputs, producing outcomes is more complex, requires more innovation, involves more risk and can be more costly.

As a commissioner, is your objective to deliver a specified output more cost effectively? Or do you need a better outcome, and are you prepared to pay the premium needed to find out how to achieve and then deliver it? If the answer is the latter, then the next stage is to consider whether embarking on a PbR-based program is acceptable.
Acceptable?

PbR programs assume that providers can be incentivized to invest in new delivery models at their own risk by offering the possibility of improved financial returns. In traditional procurements, commissioners buy a prescribed service output for the lowest possible fee. In PbR programs, commissioners don’t want to focus their spending and financial incentives on these outputs. Instead, they want to tie a larger portion of their fee to driving innovation that leads to the achievement of socially desirable outcomes. These outcomes are achievable in theory, but in practice, upsides payments to suppliers will typically be constrained by the departmental budget and the need to generate overall cost savings – essentially how much of the desired outcome the department can actually afford.

Commissioners need to consider up front the limit of the potential reward available, and how that might restrict the provider’s capacity to invest and therefore their ability to generate the desired outputs. This is a complex political debate.

Notwithstanding these constraints, any PbR-based mechanism will deliver superior financial returns where the outcome exceeds the baseline target. This may generate controversy. For example, there may be some areas of public service where a market has not operated in the past. The public may simply not accept that private companies should be allowed to make any profit, let alone a healthy one.

In response to these challenges, there is a risk that the PbR regime is set with arbitrarily challenging targets, in order to satisfy the public perception that the private sector should not be rewarded for anything other than exceptional performance. Any provider who fails is then judged against the target, which may well have been unachievable in the first place. Accordingly, if commissioners are to adopt PbR, they have to be comfortable that they can defend, and the public will accept, providers either failing to achieve the target – and potentially failing financially as a result – or being paid more for the outcomes they achieve. If the answer is yes, then the next stage is to determine whether PbR is achievable.

“Understanding that PbR programs need different commissioning skills and insight is the first step toward success.”

People queue outside a job center in Madrid, Spain. Getting the long-term unemployed back to work is an outcome that may require innovative policy actions.
Achievable?

A PbR-based contract can only work as intended if providers can get on with the job. Commissioners have become used to being prescriptive when dealing with output-based contracts and their suppliers. But such an approach in a PbR arrangement would leave very little scope for the provider to drive the better outcome that is desired. So commissioners must be comfortable about giving providers the control they need. The key to this is to maintain focus on outcomes, not inputs or outputs.

PbR programs are used to tackle complex issues. This complexity means that a range of factors may affect the outcomes targeted by PbR programs. For example, housing, health, substance misuse treatment, education and employment may all help to determine whether an individual reoffends. In this case, the desired outcome – reducing reoffending – cannot be achieved by tackling one factor in isolation. Providers are likely to need to work with other organizations in order to be successful. So commissioners must be able to devise a multi-agency system that works for government and providers.

PbR mechanisms are simple in concept but complex to design and implement in practice. How much of the contract will be subject to PbR? How will the outcome be measured? How should reward change as performance changes? When will payments be made? When more than one provider is involved, how will the reward be shared? An added complication is that PbR-based contracts are necessarily highly specific to the problem they are addressing, so it is difficult to standardize the approach and transfer it from one program to another.

A PbR arrangement will only be effective if it is well designed and managed. This requires a host of capabilities, including a robust and transparent payment calculation model, trusted by all parties; a contract management model that operates in transitional and business-as-usual environments; gathering and analyzing complex data; and managing contractual changes as the terms of the PbR agreement evolve. So, commissioners must fully and realistically assess whether their organization possesses the capabilities required to design and manage the PbR mechanism, or whether it is feasible for these capabilities to be developed.

Inside the providers

Once a PbR arrangement is considered applicable, acceptable and achievable, then what next? Before pressing ahead, commissioners should understand the provider market, and how providers assess the commercial opportunity of PbR.

To get to grips with the organizations that deliver PbR programs on the front line, EY has talked to a representative sample of providers in the UK. This research has revealed a broad willingness among providers to engage with PbR programs and an acceptance of PbR as a valid and useful payment mechanism for commissioners to deliver public service reform. But providers’ appetite for PbR-based contracts is limited. Many see PbR as the price of participating in the market, rather than a route that offers a superior return to shareholders.

“The distinction between outputs and outcomes is key to understanding when and where PbR might be the right route to take”

The fact that a supplier has a part of their payment linked to an outcome will clearly incentivize their response. The challenge for commissioners is how to drive the right response. PbR can easily become a blunt instrument that either deters providers from bidding, or incentivizes the wrong behavior.

Generally, providers are not motivated by the prospect of big PbR returns. Commissioners may think that the prospect of large rewards will spur keener competition. But private sector boards are inherently conservative about risk. They are reluctant to bid for contracts where they cannot assess their return with sufficient confidence. If there is too much potential downside risk, almost no amount of upside return can offset it. Most providers prefer lower-margin, but more predictable, opportunities to those that could have a higher margin but are less certain. So the appetite for significant PbR upside in first-generation contracts, where so little is known about the link between input resources and outcomes, is limited.

The prospect of large returns alone is unlikely to spur providers to innovate more. Government may commission a main provider which, in turn, works with others to deliver the desired outcomes. Typically, the main provider will invest to the extent needed to find second- and third-tier providers that already have the solutions in place to start working on the target outcomes. This is an investment in existing ideas within the supply chain, rather than genuine innovation.

PbR may be particularly challenging to these second- and third-tier providers. Providers at this level who have previously been directly grant funded or supported by...
charitable and social funding may find that their income is tied increasingly to PbR-based, private sector-led supply chains that require some or all of their income to be placed at risk. They may even be asked to take all the PbR risk, while the prime provider gets their return from fees. So commissioners should be aware of the risk of disrupting the very supply chain they are relying on to drive better outcomes.

The stakes are often high for providers. Failure to win a contract may mean that providers fail to gain a foothold in a new market or find themselves locked out of a market they already supply. In the PbR environment, where the relationship between costs and outcomes is not properly known, commissioners cannot rely on the old adage that providers “wouldn’t bid if they weren’t going to make money.” Instead, there is a risk of providers being pressured into bidding for uncertain contract returns against their better judgment. The risk that a provider might win a contract and then struggle to deliver it is magnified significantly in a PbR environment. Commissioners should be aware of the likelihood and potential impact of a supplier failure.

Service providers may seek to minimize their reliance on PbR to generate their return. If they believe that they cannot meet the target needed to earn the PbR component, they will instead try to price their expected return into the fee component of the contract. Crucially, providers will only treat the PbR element as a part of their target return if they believe the outcomes desired are achievable.

Agreeing an increased PbR component in a second-generation contract with an incumbent provider does not imply increased appetite from the supplier for PbR. Instead, it may simply mean that providers are better able through experience to calibrate their resources to what is needed to deliver the PbR outcome, and thus more confident of realizing their target return. Incumbents may very likely become better informed than commissioners about the commercial and operational dynamics of a contract. The provider may learn, for example, that the payment mechanism no longer fosters genuine innovation. As such, commissioners could not be sure that retendering a contract with an increased PbR component will actually spur genuine innovation or yield better value for money. Commissioners must take account of what is within a provider’s control and the extent to which this is balanced against the proportion of PbR in the payment mechanism. For example, commissioners may end up paying providers for outcomes that would have happened anyway – for instance through broader social changes, like falling crime rates. They may also be party to setting up providers for failure because they do not give them sufficient control to secure the required results. This produces a no-win situation for the provider that needs to be avoided: if they do well, they are criticized for making undeserved profit; if they do badly, they have limited influence over commissioners to renegotiate their contracts.

Complex but compelling

Recognizing the right circumstances, and the motivations of the provider, will help commissioners decide whether PbR is the right way to approach a policy challenge. Despite the increased complexity and some of the challenges it brings for commissioners, PbR is likely to be used more widely in the future. Understanding that PbR programs need different commissioning skills and insight is the first step toward PbR success. It can enable governments to improve public services by expanding the scope for alternative providers to deliver them.

Around the world, government departments are being asked to do more with less. At its best, PbR gives commissioners better outcomes for lower costs. And if these outcomes are not achieved, the risks and costs of failure are borne by the private sector. In many government circles, this is a compelling argument.
For tomorrow’s workforce to have jobs and opportunities, today’s youngsters need the confidence and inspiration to create their own businesses. Rohan Malik explores how education policy can help to foster an entrepreneurial culture.

According to the International Labour Organization (ILO), the world faces a youth unemployment crisis. The global financial crash of 2008 and its aftermath opened a yawning employment gap for people of all ages. Last year, more than 201 million people were unemployed around the world. This is 31 million more than in 2007.

To provide opportunities for new entrants to the labor market, the world economy needs to create 280 million jobs over the next four years. And for young people, the prospects are worse. They are three times more likely than older adults to be out of work.

The personal, social and economic costs of unemployment are well documented. And they are exacerbated when people endure sustained periods of inactivity during their youth. So creating jobs for the growing number of young people in workforces around the world is a top priority.

It is true that the private sector will need to provide the vast majority of these jobs. But this doesn’t mean that governments can leave it to businesses to solve the problem. If the private sector is to create jobs at the necessary rate, new businesses must take root and flourish. For this to happen, countries around the world need to nurture conditions for entrepreneurs.
Unlocking high-impact entrepreneurship

At this year’s G20 Young Entrepreneurs’ Alliance (YEA) Summit in Turkey, EY released a report From classroom to boardroom, which explores how education policy can help to create the conditions that enable entrepreneurs to thrive.

Youth unemployment across the G20 is stuck at 16%. Globally, some 358 million young people are not in education, employment or training – more than the population of the US and Canada combined.

Persistent youth unemployment and ever-present demands for innovation, sustainability and social inclusion are compelling G20 governments to support entrepreneurship. Across the G20 and rapid-growth economies, entrepreneurs represent more than 75% of employment.

But entrepreneurship itself is not enough. The goal is to develop high-impact entrepreneurship that generates significant gains in income, employment, productivity and competitiveness. High-impact firms drive the lion’s share of job creation among start-ups. And a recent study from the World Economic Forum shows that the top 1% of firms contributes 40% of total jobs.

For tomorrow’s workforce to have jobs and opportunities, today’s young people need the confidence and inspiration to create their own businesses.

Education is just one factor that creates a fertile culture for entrepreneurs. Favorable tax and regulatory conditions, tolerance of risk and failure, access to funding, and connections to advice and facilities are also crucial.

Businesses are created by people. For tomorrow’s workforce to have jobs and opportunities, today’s young people need the confidence and inspiration to create their own businesses. Education is the key channel for opening young minds to entrepreneurship. Lasting changes in education systems – and real changes to culture – take time. So the need for policy action is urgent.

Quick wins

EY’s report contains a series of practical policy recommendations, and details examples from across the G20 that can provide inspiration. The first two actions can be taken right away. The first is to establish a G20 entrepreneurs’ start-up visa. Multilateral visas, or regional visa programs, improve the mobility of labor and facilitate international business. Some countries already offer similar visa schemes aimed at entrepreneurs and start-ups. In 2013, the Canadian Government launched a Start-Up Visa Program for immigrant entrepreneurs. The five-year pilot program is the first of its kind in the world, linking innovative foreign entrepreneurs who want to launch a business in Canada with experienced Canadian firms. Similar action in other countries could help spread positive entrepreneurial culture and norms throughout the G20.

A second immediate policy action could be to encourage international networking. New and young entrepreneurs need the opportunity to participate in international networking and collaboration with other entrepreneurs to exchange knowledge, mentor each other and transmit an entrepreneurship culture. An exchange program, and access to tailored trade missions, would be powerful initiatives. For example, France is undergoing a start-up renaissance driven by a new generation of entrepreneurs, investors, engineers and designers. This movement is called “La French Tech,” a banner shared by French start-ups and the Government, which supports them. Launched in 2013, the €200 million initiative promotes French start-ups under a single brand, both in France and abroad.

Near-term actions

Two more policies could be implemented in the near-term. First, governments could ensure that school pupils receive teaching on entrepreneurship from a young age. Introducing the subject to primary school curriculums will help to create an entrepreneurial mindset. But this isn’t just about the classroom. Experiential learning, such as workshops, extracurricular programs and online tools are
entrepreneurship and quality employment. This means concentrating resources on entrepreneurs that generate the most value, and create the most jobs – and includes targeted grants, celebrating success, and facilitating networks that support knowledge transfer and risk taking. In February 2011, the US Government launched Entrepreneurial Mentor Corps, a program designed to mobilize the current generation of entrepreneurs to help mentor and support the next generation.

Finally, the longest term policy challenge is to establish programs that link culture and education to impact. Entrepreneurial education programs require evidence that links education and culture to its effects, including innovation and job creation. The State Government of Minas Gerais in Brazil has launched Start-ups and Entrepreneurship Ecosystem Development (SEED), an accelerator program to foster entrepreneurial culture and support new and innovative tech ventures. By the end of 2014, the program had helped to incubate 73 companies from 12 countries, with combined revenue of US$10 million.

Preparing for the future

So, while there is no “quick fix” for developing an entrepreneurial culture, education can help in several ways. A cultural shift will not happen overnight – in fact, it will take place over a generation, if not more. For governments, this means a long-term commitment to supporting entrepreneurship through education. New policy can be enacted in stages, with some near-term initiatives setting the course for deepening changes in entrepreneurship culture, through education, over time.

Başak İlisulu, Sherpa to the Turkey G20 Young Entrepreneurs’ Alliance, says: “To encourage more entrepreneurs, a country needs a set of beliefs that make entrepreneurship a valid and respected career choice. To develop an entrepreneurship culture, you have to create an infrastructure and for that, you have to start from the basics. At this point, the right place to start is education and lifelong training.”

The ILO has warned of a “scarred” generation of young workers who face precarious work in developed countries and in-work poverty in the emerging world. The challenge of developing an entrepreneurial culture that produces the businesses that provide tomorrow’s young workers with sustainable, high-value jobs is shared across regions. By taking policy actions, G20 leaders have it in their power to develop this culture – and to play their part in ensuring that the next generation has the opportunity to earn their livelihoods and lead active and fulfilling lives.

To read the full report, please visit ey.com/government

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A refreshing approach
In East Africa, an American social enterprise is harnessing the talents of local people to provide a reliable supply of safe and affordable drinking water. Jon Shepard talks to its co-founder, Randy Welsch

It was late on Friday morning in Kigali when Randy Welsch answered the telephone. He spoke a few words before succumbing to a tickly cough and pausing to take a sip of water. Twenty years earlier, Rwanda was not a safe place for a social entrepreneur from America. The country was still coming to terms with the 1994 genocide. While much has changed since then, the challenge of providing drinking water remains. It is one that many underestimate. Somewhere in the world, a child dies every minute from the effects of drinking dirty water. And half of the people in hospitals around the world are there because of water-borne diseases. But it is a challenge that Randy is taking on. Now that his throat was cleared, Randy could tell Citizen Today about his social enterprise, Jibu.

Jibu trains and finances African entrepreneurs to provide safe drinking water. They help to solve a water crisis in East Africa that has endured despite effort from governments and the private sector. So, how does a social enterprise produce results? And what can governments around the world do to help them?

Randy has been an entrepreneur for most of his career. Until 2010, he ran a business in the space satellite sector. He also sat on the boards of nonprofit organizations. After a stint with World Vision, an international humanitarian organization, and inspired by his son, Galen, who worked in the Peace Corps on drinking water projects in Morocco, Randy established Jibu with Galen in 2012.

Despite billions of dollars invested in piped water schemes and borehole access, the vast majority of urban East Africa still lacks reliable access to safe water – a consequence of half of donor-funded water schemes failing within two to three years. Galen and Randy knew there had to be a better way.

Owning the issue

Viewing the problem as one of a lack of local ownership, they founded Jibu as a social enterprise that equips African entrepreneurs to launch local franchises. The franchises supply clean water to their communities. The water is not free, but the charge is small. The franchisees make a profit and communities get access to clean water that is affordable. At present, Jibu franchisees operate in Rwanda, Uganda, Kenya and Congo.

What does a Jibu franchise look like? High visibility street-front shops are located within 500 meters of a water source. They draw from this source – and never drill – then advanced solar powered filtration equipment cleans the water. The shops sell the water, within a two kilometer radius of the water source, at a much lower price than commercially bottled water – and at a fraction of the environmental cost of other purification methods.

Outside of South Africa, franchising is virtually unheard of in the continent. But it is an arrangement that is working: “It allows us to harness the entrepreneurial drive in these local communities,” says Randy. The franchise sets boundaries and enables entrepreneurs to channel their energies effectively. Licenses are revocable, and Jibu provides oversight, as well as training and marketing support. The arrangement offers freedom, but structure; not dependence nor independence, but interdependence. “It enables us to catch lightning in a bottle,” says Randy.

Profit and purpose

Randy rejects the idea that nobody – not even local people – should make a profit from providing drinking water in underserved African cities. Profit is a means to an end, not an end in itself. For the model to work, Jibu franchises have to make a profit so they can attract and retain the great local entrepreneurs that run them. “The franchisee’s profit may be small, but it makes the business more sustainable than it would have been if it was reliant on either public or private donations,” says Randy.

Government projects often concentrate on rural areas, leaving cities underserved. In some cities, 90% of the people don’t have reliable access to safe water. Jibu franchises are based in urban areas because they provide a large market. “Our model produces enough water at a price low enough for people to afford,” says Randy. Jibu generally pegs the price of its water to the amount it would cost to buy charcoal or wood to boil the water.
The benefit of Jibu’s social enterprise is not limited to the provision of affordable water. The franchise system fosters entrepreneurship and creates jobs for local people, especially young women and people. Each franchise creates 4-10 jobs. In Rwanda, half the franchisees are women. Such progress offers women the opportunity to take control of their lives and support their families. The profits made also mean that workers’ incomes are more secure than they would be if the project was dependent solely on donor aid. “By putting local entrepreneurs at the heart of the system, we’re creating a virtuous cycle of job and wealth creation,” says Randy.

How does Jibu strike the right balance between impact and profit? Jibu is incorporated in the US as a Limited Liability Low-Profit Corporation, or L3C. This is a new form of limited liability company in the US.

L3Cs such as Jibu pay tax on profits. But profits cannot take precedence over Jibu’s charitable mission. “We are not technically limited in the profit we can make,” says Randy. “But under US law, profit must stay aligned with, and subordinate to, our charitable impact. In our case, profit and charitable impact are so aligned that, in reality, our profit is not limited. Bigger impact can mean proportionally larger profit.”

L3Cs can receive support from private foundations, government and traditional investment capital, but not tax-deductible charitable contributions. “The big idea,” says Randy, “is to make charitable impact more sustainable by allowing for low profits that can sustain the business without reliance on perpetual donations.”

Regulatory recognition

Jibu’s goal of providing safe, clean, affordable drinking water is shared by governments in East Africa. But taxes and regulations often pose challenges that slow Jibu’s progress. For example, one country in which it operates levies a 60% excise tax on Jibu’s water. This is because the tax authority classes Jibu’s product as mineral water, which is regarded as a luxury. Jibu’s product is not mineral water, and its motive is not to make large profits. But the L3C company structure – and its primary objective to produce community impact – is not widely experienced or understood. As such, in this case, Jibu and its customers are subjected to a tax that does not reflect the true purpose and value of the product.

Jibu is also subject to regulations that are designed to manage large factories and centrally-produced water, not a network of small suppliers who operate under the same brand, and to the same standards. For example, all franchisees use the same labels. But each franchisee has to undergo separate label testing, which is costly and time-consuming. The franchise model clearly has drawbacks as well as advantages. But, where franchises are demonstrably effective, government should seek to design regulations that encourage them.

There is demand from entrepreneurs and governments in more than 30 countries across Africa, Central America and Southeast Asia for Jibu’s services. Jibu’s priorities are to perfect the franchise model and then expand steadily into some new areas. Countries with authorities that demonstrate an understanding of Jibu’s mission, and whose regulations take Jibu’s hybrid impact-over-profit status into account, will prove more attractive to Jibu.

Jibu has big ambitions. For example, it aims to serve a million customers by 2020 and cut the incidence of waterborne disease by a quarter in the communities it serves. But, it can’t solve the water crisis on its own. If everyone in East Africa, and indeed the wider developing world, is to have access to affordable safe water, then others need to pick up the baton. “We will help by sharing our approach,” says Randy. “We want to inspire others.”

Jibu also wants to help governments pave the way for others. What is Randy’s message to governments across the developing world? “Be a leader, not a follower. Social enterprise is the future when it comes to solving seemingly intractable problems. Don’t be shortsighted by trying to gather large amounts of tax revenue from profitable social enterprises. Instead, help these enterprises to invest and create jobs for the long term. This will help to solve social problems and provide sustainable sources of tax revenue.”

Jibu alone cannot ensure that everyone in the developing world has access to safe, affordable water. But by fusing social impact with profit, and placing the solution to the problem in local hands, it provides a model that can succeed where others have failed.
Agents of change

How government CTOs can drive digital transformation

Citizens in countries all around the world are conducting more of their lives online. Whether it is staying in touch with friends, managing personal finances or doing the weekly shopping, more people save time and effort by using digital platforms. This “digital by default” mindset means that citizens expect high-quality digital services from government. And this places heightened expectations on chief technology officers (CTOs) who operate in the public sector.

IT leadership has been recast in government, from a position focused on implementation and technical issues to one concerned with strategy and change management. As a change agent and leader of digital transformation, the CTO is now at the heart of government decision-making and strategy. For example, in the US Government, the role of CTO has been elevated to the executive branch with a direct reporting line to the President. In Australia and the UK, the position is an executive role within government departments.

This report offers insight on how the CTO can use digital platforms and analytics, introduce effective governance of data and organizational structures, and build in-house digital skills. It answers key questions, such as: How can the public sector use new analytics to make better decisions? How can the CTO structure a governance framework that optimizes the value of data? How can CTOs develop capabilities in the public sector to support the transition to digital government?

The report also sets out solutions for government organizations on different stages of their digital journey. It contains perspectives for those who have leading, established and developing digital services. Read the full report at ey.com/government

Creating trust in the digital world

Global Information Security Survey 2015

More than one-third (36%) of global organizations still lack confidence in their ability to detect sophisticated cyber attacks, according to the annual EY Global Information Security Survey 2015, Creating trust in the digital world.

The survey of 1,755 organizations from 67 countries examines some of the most important cybersecurity issues facing organizations today and finds that 88% do not believe their information security structure fully meets their needs. When it comes to IT security budgets, 69% say that their budgets should be increased by up to 50% to align their organization’s need for protection with its management’s tolerance for risk.

The most likely sources of cyber attacks are seen as criminal syndicates (59%), hacktivists (54%) and state-sponsored groups (35%). However, compared with last year’s survey, respondents rated these sources as more likely: up from 53%, 46%, and 27%, respectively, in 2014.

The report sets out four areas where organizations need to recognize the current challenges and understand what they need to do to improve.

- The nature of today’s attacks. How is the world changing? What threats and vulnerabilities should I fear? How can I manage the attacks?
- How attacks unfold. What are the worst-case scenarios? How can I detect the small, subtle signs? Why should “high alert” be my constant state?
- Why organizations are still vulnerable. Am I measuring the threat? Can I adapt to changing threats? How can I be quicker to neutralize sophisticated cyber attacks?
- The shift to Active Defense. What is Active Defense? What needs to be improved? How can I build Active Defense?

Administrative reform and pressure to make savings provide a backdrop of public sector transformation in France

France is the world’s sixth-largest economy. Although growth in recent years has been weak – 0.7% in 2013 and 0.2% in 2014 – it is set to pick up over the next two years as lower oil prices, less fiscal contraction and monetary stimulus take effect. Public finances are still under pressure.

According to EY’s 2015 European Attractiveness Survey, France is third in the continent’s rankings for attracting the most foreign direct investment projects. The provision of online services is another area in which France excels. The 2014 UN e-government survey ranked it first in Europe and fourth in the world for the quality of online public services.

France has more local authorities than any other EU country. It has 100 departments, 36,600 city authorities and 2,145 “intercommunality” organizations. However, the number of French regions was reduced earlier this year from 26 to 13. Reform of territories will continue. The next stage is to redefine the powers of local and regional government bodies.

Pension reforms are also on the agenda, with changes to the length of the qualifying period for obtaining a full-retirement pension and the creation of personal hardship prevention accounts. However, the statutory retirement age remains at 62. France is preparing for a withholding tax system, which is set to be initiated in 2016 and implemented two years later.

EY in France

EY works with central and local government, and social administrations to improve performance and help effect transformation projects. We have worked with these public organizations since the first decentralization laws, and today alongside communities, operators, and the French and foreign governments.

We offer a wide range of advisory, assurance, tax and transactions services in the following main clusters: defense, digital government, infrastructure and economic development, healthcare and social welfare, and public finance management.
Defense
The growth in defense spending is slowing as budgets are constrained. EY helps to increase effectiveness through improved organizational structure, procurement and resource management.

Digital government
We can help with every step, from defining digital government strategy to final implementation. Our services include: developing strategy; target group identification and expectation gathering; creating blueprints; re-engineering processes; and developing, auditing and implementing information technology. EY France is working with the French employment center on its digital transformation program and is helping the French health insurance system with the digitalization of services, such as electronic prescribing and a portal for health professionals.

Infrastructure and economic development
As governments look to infrastructure as a means of stimulating their economies, transport is a key priority. EY France provides support from the earliest stages, such as project planning, through to procurement, financial close, construction and operations. We have developed a strong track record across the full transport spectrum, from airports and ports to roads and rail. We help our clients to devise and compare financial plans and delivery approaches for projects that involve public or private financing, project revenues and grants – and help them to implement these plans.

Health care and social security
In the context of economic crisis and a changing society, the question of adapting our health care and social protection systems is more relevant than ever. Our teams help social protection organizations to define and build a sustainable model, and work with public hospitals to help them transform and certify their accounts.

Public finance management
EY’s FraMaLux Government & Public Sector team is part of a globally connected network of experienced, multidisciplinary professionals who work with governments and public sector organizations around the world to address complex problems and achieve leading practice in public finance management. Our services include: financial process improvement; public sector accounting reform (IPSAS/EPSAS); project feasibility services, including export credit guarantees; financial IT transformation; and cost reduction programs.

My view
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In this regular feature, we catch up with senior EY government leaders about the issues they are seeing in their respective markets. Here, we talk to Nathalie Van Vliet, Government & Public Sector Leader for FraMaLux

How is France approaching the task of reducing its deficit?
Estimated at 3.8% of GDP in 2015, the French public deficit is expected to be 3.3% in 2016 and fall below 3% in 2017. €50 billion in savings have been announced for the 2015–17 period. This is a very ambitious goal, which requires structural reforms of state intervention in some public policies, social welfare savings and lower operating costs for all public stakeholders. The impact of deficit reduction will be felt in all parts of the public sector. The landscape could change significantly, with public agencies being merged, and territorial reorganization and devolution programs continuing.

Could these developments harm the quality of public services?
Budget constraints force public actors to reconsider their ways of doing things, while preserving their ability to meet the growing expectations of users. Therefore, public action needs to be simplified and modernized to generate savings, produce innovation and maintain the competitive advantages of the French territories. We are convinced that French public actors have the capacity to meet these challenges. They have demonstrated it on a daily basis, for example, by pooling resources, collective innovation and cooperation between the public and private sector.

How can EY help to bring about the major changes required?
Today in France, the implementation of public policies is spread widely between central and local government, and public operators. EY France has been working alongside all these public stakeholders for over 30 years. Our multidisciplinary team of nearly 200 professionals dedicated to the public sector is therefore able to combine these different types of insight, bringing real added value to the process of major public transformation. This insight is recognized by our clients, and shows that EY France is set to maintain its leading position in the public sector consulting market.
Why was the internet more valuable than a tractor to Bangladeshi farmers?

In Bangladesh, EY is helping rural producers connect to urban buyers online.
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